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* Relations With U.S. Continue To Be Strained

902A0074A Tokyo CHUO KORON in Japanese
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[Article by International problems Research Institute Acting Director, Nogami Yoshiji (former economic councillor at Japanese Embassy in Washington)]
[Text] Many people refuse to yield to the claim, "the most important relationship for both sides." For God's sake, how long shall this alliance predicated on discontent continue to go on? Now, I am a bit disturbed by the thread of the tale, "meanwhile, the war has entered its 30th year," in Thucydides' "History."

"We have met the enemy, and they is (sic) us." (Pogo)

Troubled by the "Most Important Bilateral Relationship"

Whenever he has had an opportunity to speak, the former ambassador to Japan, Mansfield, says: "The U.S.-Japanese relationship is the most important bilateral relationship for the United States." It is crystal clear to anyone who knows the ambassador's personality that his statement is genuine and not a mere diplomatic nicety. Discounting that he is disposed toward a harsh view of Europe, which instilled fear in the the European side when the ambassador insisted on removing U.S. ground forces from Europe during his days as the majority leader of the Senate, Mansfield's statement seems to come from his firm conviction that the future of the United States is in the Asia/Pacific region and, above all, relations with Japan hold the key. Taking as an example "the U.S.-Japanese free trade zone initiative" which attracted our attention in the last couple of years, it also initially started when some U.S. senators took up the ambassador's proposal drafted with such conviction. Subsequently the Japanese side also started to show some interest in getting on with it. Likewise, when our prime minister visited the U.S. Congress, Mansfield was also there and, out of conviction, imposingly muzzled representatives who were good and ready to vent their frustration with Japan. Yes, I recall that scene. Nonetheless, aside from these premises, the general Japanese population and general U.S. population have somewhat differing shades of feeling toward the claim, "the U.S.-Japanese relationship is the most important relationship for both the United States and Japan." Especially nowadays, it is a fact that an increasing number of people both in the United States and Japan entertain mutual ill-feeling. They are not raising an objection to the claim by reasoning that the importance of the U.S.-Japanese relationship has been diminished. That's not it. It is more like a message, "You may claim that, but it is difficult for us to readily swallow it down." Of course, how it is received is sharply different between the two countries. The general Japanese population may find such a claim slightly flattering and may acknowledge the importance per se of the U.S.-Japanese relationship. However, their average resentment can be appreciated: If Japan is so important, why won't the United States treat Japan more kindly? Why does the United States single out Japan as its object of hostility by presenting the Super 301, the rice issue, and the like? Why does the United States devote itself to Japan bashing?

On the other hand, while the general U.S. population may acknowledge Japan's economical strength, they seem to resent the idea itself that the U.S.-Japanese relationship is the most important relationship for the United States. For the general U.S. population, their country is still number one, although their confidence has begun to sway a little bit these days, and, honestly, they think that it should maintain number one status. Even among intellectuals, there is undeniably a kind of middle kingdom ideology in their gut feeling to warrant that the United States is nevertheless number one, in spite of their understanding and frequent utterance of inter-independence and globalization. That is not unreasonable when we think of the overwhelming U.S. status in the postwar era. For instance, referencing the airing of the Olympic Games on TV, the viewer rate drops directly when fewer stars and stripes go up. As a result, the airing time is rescheduled and cut short without reservation. In contrast, when the stars and stripes went up at the Los Angeles Olympics, partly because of the nonparticipation of formidable Soviet and East European teams, the people loved it with passion dismissing the particular situation. The public with that kind of predisposition gave the basic votes in support of President Reagan's claim for a "Strong America."

Aside from relations with the Soviet Union, the general U.S. population is not so familiar with giving thought to relations with a specific foreign country, neither do they usually share specific perceptions with others. Also, with respect to Japan, it is probably correct to state that they did not necessarily have any fixed view until a view that Japan is being unfair in trade began to settle as a common perception.

Say many Americans: "My standard of living has dropped from what it used to be in my parents' generation. My children's standard of living will probably be lower than what it is in my generation." This phenomenon is largely attributable to the U. S. domestic factors such as a slacking in real wage increases associated with a slowing in the increase in productivity and polarization of the income level which became prominent under the Reagan administration. Yet, surprisingly a large number of people believe that trade, above all, unfair trade practiced by foreign countries is responsible for it. To be extremely simplistic, the United States is a country being built by people who have come there to have a better life. Therefore, they contrive to do everything possible to have a better life and will repel any impediments that stand in the way. Consequently, it is not strange that increasingly Americans feel reactive when they hear that relations with Japan are most important while Japan has allegedly become an impediment.

No Discussion of Shared Values

According to a report of the public opinion poll conducted early this year jointly by an American mass communication firm and a research institute, 76 percent of those polled thought, "For the United States, the economic threat of Japan is more serious than the military threat of the Soviet Union." To be more accurate, the question read: "Select from the following the American challenge in the 21st century. (1) military threat of the Soviet Union. (2) economic competition with the U.S. allies including Japan. It is not strange at all that 76 percent of the people should select the latter even if Japan is dropped out of the object, when taking into account Gorbachev's recent political chart, the global trade deficit of the United States, unification of Europe in 1992, and rapid ascendancy of the NIES [newly industrializing economic societies] such as South Korea and Taiwan. The problem is rather a tendency to oversimplify this 76 percent with a statement, "Japan itself is the largest threat to the United States," and the ill-feeling of Americans toward Japan that allows them to accept the report at face-value. The American trend of over-simplification, typified by compacting an opinion into a 4 line slide of an overhead projector, plays tricks not only on the U.S.-Japanese relationship but also similarly on the size of the surging amplitude of U.S. public opinion. However, there are three economic wave cycles in the amplitude of the U.S. public opinion of Japan, that is, waves equivalent to the Kitchin's wave, Juglar's wave, and the Kondratieff's wave. Because many people began to think that these three waves were all declining, oversimplification such as this has apparently turned into a massive surge.

Responding to the threat, discussions on Japan suddenly gushed out as if a dam were broken as seen in James Fallow's "More Like Us": What is the problem with Japan? Why is Japan a threat? How deeply opposite are the United States and Japan? Of course, the basic tone of these discussions is linked to the discussions on the declining of America, and both Fallows and Clyde Prestowitz who wrote *Trading Places* note that they are not criticizing Japan but presenting a proposal for revitalization of the United States. Well, they are practicing a boxing game called revitalization using Japan as a punching bag, so they claim. No matter what it is supposed to be, the Japanese side fiercely wants to get in their licks. They judge Japanese culture by the American yardstick and they do not understand it. Finally, even a stirring opinion finds its way out in the open: The strength of Japan is the uniqueness of Japanese culture, and we must take measures to counter the United States by Japan's economic leverage. Many of them are not opinions but appear to be a type of emotional reaction to criticism. Unfortunately, a shortage of exchanging logical opinions is the recent trend in Japan, and that won't help the matters.

While the Japanese conceitedly believe that we know our counterpart very well because of abundantly available information on the U.S.-Japanese relationship, Americans did not have enough time and latitude to formulate perceptions of the U.S.-Japanese relationship due to the extraordinary pace of the expansion of the Japanese economic presence. That may be a factor to be considered, but it is also true that both the United States and Japan have recently neglected efforts for reviewing the logical framework of the U.S.-Japanese relationship.

Past joint communiques (recently, they were presented not in the form of a joint communique but in the form of a press release by each head of the state. However, these unilateral press releases are also negotiated and mutually agreed upon statements) released at the time of the U.S.-Japanese summit conferences, almost always contained phrases such as "The United States and Japan share values and institutions of freedom and democracy." Perhaps no one doubts that both the United States and Japan are free nations and democratic states. However, this standard similar to the standard on "whether or not the U.S.-Japanese relationship is important," also has a largely ambiguous and fragile disposition, because we have never had in-depth discussions between the United States and Japan to identify the shared values and institutions. Given the U.S.-Japanese relationship as a datum, the shared freedom and democracy are recognized only as an identification of the just cause of that relationship, or a so-called preamble for entering into "standard work procedures" (Graham Allison pointed out in her models of the policymaking process that the bureaucratic model policymaking process is characterized with a tendency to obtain solutions through standard work procedures by making everything into a routine among the participants). As a result, even a minor conflict surrounding the standard work procedures will provoke a man to wonder "What's happening?" The U.S.-Japanese relationship is safe as long as it is sailing smoothly. However, when ill-feeling germinates as previously described, the element of "what's happening?" will rapidly gain relative weight. Then, a barrage of arguments pour out expressing how antithetic the United States and Japan are also in this purview, prompting in consequence Japanese resentment.

Of course, meetings and negotiations are very frequently held between the United States and Japan. This practice extends not only to the government level but is diversified to the economic and political circles. However, in many cases, the practice honors the standard work procedures, and discussions on the entire framework will be limited. Without a doubt, it is quite natural that government level meetings by bureaucrats conform to the standard work procedures. Sadly, however, conferences held by the economic and political circles also will not go beyond the confinement of standard work procedures. Especially reflecting the scarcity of logical arguments in the Japanese economic and political circles, we cannot expect to have, at least from the Japanese side, discussions on mutually shared sense of values and institutions, and further, matters on the level of what Tocqueville refers to as "Mind Habit."

Real Problem Is Security Not Trade Friction

The above described lack of discussion or dialogue on the basic framework of the U.S.-Japanese relationship poses a great problem in that it has bluntly manifested itself as a lack of common perception not only of economic issues but also of security issues. It may be somewhat reckless to predicate a problem despite the presence of a respectable framework, the U.S.-Japan Security Treaty. However, I mean potential problems stemming from what we mutually assumed in the context of the framework and how we logically explained the framework when the wind blew or began to blow against it. Until now, the framework of the U.S.-Japan Security Treaty was dominantly treated as a part of the aforementioned standard work procedures because of Japan's domestic political reasons, or at least it is predicated upon fragility which necessitated such a format. Therefore, the underlying fragility manifests itself under a headwind, a never-assumed event, or outpouring of straight truth which can blow up a formal posture.

Needless to say, Japan's defense policy is based on the philosophy of deterrence. This philosophy of deterrence is also pledged by the U.S.-Japan Security Treaty. Similarly, The U.S. strategy is also based on the philosophy of deterrence, and traditionally front deployment strategy is practiced. Common interests and mutual benefits between the United States and Japan are materialized based on the consensus of philosophy between the United States and Japan and the geopolitical location of Japan.

Nevertheless, the general U.S. population had a poor understanding of this point. We should better be aware that only a very few Americans except for the defense related people or experts understand the strategic importance of the Japan Sea and the Sea of Okhotsk in conjunction with the steady intensification of Soviet Military Force in the Far East and the advancement of SLBM [submarine-launched ballistic missile] and SLCM [sea-launched cruise missile]. Of course almost no one knows that a military base in Petropavlovsk is closer to Washington than the Barents Sea. The story of the best seller, *Red October* by Tom Clancy starts from offshore Norway. Nowadays, Soviet submarines blow smoke, one after another, in the North Atlantic Ocean. Stretching my imagination, incidents in the Northwest Pacific Ocean might help Americans to reshape their perception. Also I am tempted to entertain a stupid speculation that the Soviets may have placed outdated submarines in the North Atlantic ocean while they may have placed many of their new accident-free submarines in the Northwest Pacific Ocean where qualitative improvement efforts are in progress.

I assume that this lack of understanding on the part of Americans is related to the far less visible nature of the front deployment strategy in the Far East where the naval force is the central player, different from the front deployment in Europe where a nearly 40,000 man land force is stationed. More basically, the so called "Contradiction of Deterrence" seems also to be acting on U.S.-Japan Security in the Northwest Pacific Ocean. Precisely, when deterrence is in proper working order, it will become hard to gain the support of the general public for programs to assure continued performance of deterrence. Evidently, an understanding of the framework that makes deterrence work will fade. Understanding of the U.S.-Japan Security Treaty system by the general U.S. population (including U.S. representatives) is unmistakably much poorer than security of the European front. Also, certainly, this problem is not one-sidedly attributable to the level of the U.S. understanding. U.S.-Japanese discussions on security, covered under the standard work procedures, have failed to proceed in a format appealing to broad public understanding because internal discussions in Japan were extremely irregular. This failure also adversely affected American understanding to a great deal.

The FSX [fighter support experimental] issue was a case directly hit by these effects. Among allied nations, it is practically common sense to ensure that weapons are standardized and interchangeable and to engage in joint production. The United States also imports the Harrier British fighter, and produces it at home. Despite the substantial consensus of understanding on these points among defense related people, this framework becomes vulnerable once the trade related people and others who were not traditionally involved in the standard working procedures, come into the picture. The matters become unmanageable because of the influx of many differing opinions, such as, the suggestion to import off-the-shelf models in view of the trade balance and the concern over jeopardizing the U.S. technological edge in commercial airplanes. Naturally the Japanese side feels grossly defiant. Even in this case, it is not justifiable to attribute the problem only to the poor understanding on the U.S. side or the egoism of some people on the U.S. side. Japan, hiding its strong root desire for independent development, shows an attitude as if they compromised right or wrong considering the U.S.-Japanese trade relations. Frankly, we have seldom engaged in official discussions from the point of the basic framework of the U.S.-Japanese alliance. Economic circles also have their own agenda and waves the banner for independent development and production of arms and government assistance to promote that effort. In this instance, the U.S.-Japanese alliance is reduced to a mere pretext. No consideration is given to the notion that having bilateral discussions and forming common understanding in these matters is what the alliance is for.

The same remark can be made about the burden sharing. Here is a familiar set pattern: The United States makes various proposals centrally in the Congress against the backdrop of discontentment with Japan and the fiscal deficit reduction, for instance, asking Japan to layout 2 or 3 percent of its GNP and soliciting, lo and behold, contribution of an aircraft carrier. That news was in the headlines in Japan and made the general Japanese population

recalcitrant. This burden sharing may be a legitimate argument naturally to be brought out considering: Japan's expenditures for international public goods such as defense and aid is extremely low compared to other Western nations whereas Japan has a huge balance of payments surplus. Attending with the U.S. defense spending cuts, many military facilities are being abolished or scaled down; Moreover, NATO nations share the actual burden besides their share in form of fiscal expenditures. On the other hand, the Japanese side's response to burden sharing is prin.arily incremental accommodation typical of the standard work procedures, such as, a growth of defense spending, a growth of ODA [overseas development assistance] (although there is a separate problem in that more than one half of it is an increase of loans which other Western nations have already reduced), and an increase of host nation support (sharing of expenses by a host nation). Constantly Japan evades discussing the matters such as the role and the mission (operationai role sharing) because of domestic circumstances. Years ago, Masataka Takasaka wrote an opinion somewhere to the following effect, "Even to be a good member in the neighborhood association, a mere contribution is not enough. One must join others on cold nights to patrol the neighborhood to watch for fires." This teaching is very interesting in the context of the fragile U.S.-Japanese alliance. Our attitude in the neighborhood association is somewhat abnormal. We don't want to mention it openly even if we join the patrol once in a while.

However, in spite of all, a common understanding of the U.S.-Japanese security will be on line only when Gorbachev's diplomatic initiative is earnestly directed toward the Pacific Ocean. Since it is a known fact, I do not have to explain about the tremendous jolting occurring on the European front. However, the discord between Germany and the United States in Europe is not necessarily other's business. Somehow, disharmony over short range nuclear weapons is currently managed. Yet, the enthusiasm demonstrated when Secretary Gorbachev visited East Germany is perhaps an indication of the changes in times comparable to Kennedy's visit to Berlin. It is safe to say that the proposal to cut the U.S. ground force, etc., were unimaginable before Gorbachev. No longer in Europe will they speak of the "Nightmare of Mansfield."

Presuming that Secretary Gorbachev's priorities of Western diplomacy are: first, the relations with the military superpower, the United States; second, realization of the "European Home" initiative; third, countries in the Pacific Asia, particularly Japan, requiring repairing of relations, it is sound to say that, for the time being, he will thrust weight on the first and the second priorities. In this sense, it will take time for him to deploy "the new idea" all the way to the Far East. Problems, such as ethnic problems and the economic difficulties, etc., which perestroyka confronts inside the Soviet Union, are immense, and relations with East Europe have entered a very critical time. Attending to these problems will also take time. Therefore, it is a considerable jump to assume at this moment that what is happening in Europe is likely to happen in the Far East. However, hypothetically, when the "new idea" is deployed with respect to the Far East, above all, with respect to the relations with Japan including the problem of the Northern Territories, as obvious from the European case, the Soviets will naturally be likely to propose a great initiative keeping an eye on U.S.-Japanese security, minding a greater picture of their relations with the United States, their number one priority. For instance, Defense Minister Yazov stated his view that the military balance in the Northwest Pacific was advantageous to Japan upon disclosing Soviet military forces in the Far East. That deserves attention. So far as the Soviet side is mumbling about legal and historical details of the Northern Territories and the Far East development, we can assume that the Soviet side is also acting in accordance with the standard work procedures. All or nothing! When they come around to play that kind of a big game, the common understanding between the United States and Japan will be put to a test.

The United States has a sound global front placement strategy and a particulary fine sea strategy although the general public's understanding of the U.S.-Japan Security Treaty is currently somewhat poor. It will not take too much time for them to grasp that a military presence in Pacific Asia coincides with American interests. However, the problem is the Japanese side. Compounded by elements such as a shallow public understanding of Japan's security, unstable internal politics, sentiment toward the United States, and a hyperactive mass media, inevitably we will find ourselves to be in a flighty clamor. Phrases such as Asia Pacific Non-Nuclear Initiative and All Directional Diplomacy will resurface. As a characteristic of Japan, a misconception as if objective facts and the master framework of international relations have changed will settle in, although they will have not really changed, while we are busy alarming one another. Again the gap between the United States and Japan will be widened over this subject.

Weakness of Internal Politics Behind Economic Problems

Clearly, there are many problems, even in the economic sector, that cannot be coped with by means of our usual standard work procedures. Types of problems which fall in the cracks between economics and politics are increasing. In Japan, rice and distribution are those problems. We know what causes the problem in both cases. Also, it is pointed out that dissolution of the problems will be a plus to Japan more than to the U.S.-Japanese relationship. When a minimum access is granted, it will amount to an import of only 300,000 tons compared to Japan's rice consumption of about 10.3 million tons. Even this small concession cannot be delivered because of political difficulties. Circulation is also the cause of the extreme disparity of the yen's domestic purchasing power and the market rate (virtually approximates the purchasing power parity in terms of industrial products). Beyond the questioning whether or not the market is readily available to foreign products, it affects the sense of living of the Japanese people.

However, this is also one of the problems that cannot be dealt with in view of the Japan's current political situation.

In the United States, the fiscal deficit problem is one such example. In correlation with the low savings of the United States, the fiscal deficit raises capital cost and results in a devastating far-reaching impediment. For that matter, we do not need to wait for an expert to lay a finger on it. Solving the fiscal deficit is technically not at all difficult. If the on-going federal gasoline tax is doubled, approximately a $20 billion revenue increase will be realized. Adding to this, a minor modification of the sin tax on acholic beverages and tobaccos, etc., marginal expenditure cuts will clean up the deficit in a little over 4 years by calculation. Nonetheless, these measures are politically impractical (incidentally, a gasoline consumption tax increase will also be helpful in reducing the U.S. trade deficit). None of these are problems that affect only the two countries, the United States and Japan. However, they inflict the worst effect on the U.S.-Japanese relationship. Coupled with the emerging of politically insoluble problems, there is also a problem in that politics is losing legitimacy in the presence of an independent evolution of the economy. As a result, politics will try to appease the domestic pressure in order to restore legitimacy by all means. This is the making of a vicious cycle. The comprehensive trade act of the United States and the rice price of Japan exemplify the vicious cycle. The outcome will further compound the problem.

Definitely, regular trade friction problems, the target of the Super 301, will continue to salt the U.S.-Japanese relationship. However, the problem is not merely the Super 301. The problem we have is rather how the U.S. political institution, elected by the people who are strongly in favor of keeping the status quo, can reform the current status to restore the balance of saving and investment, and how Japan's political system on a fragile foundation can rationalize agriculture and circulation problems are the toughest among the structural problems. "We have met the enemy, and they is us." This classical line in the American cartoon, "Pogo" will also fitfully describe the U.S.-Japanese economic relations just as many other problems.

Appearance of a "Thucydides' like Problem"

The key to the U.S.-Japanese relationship is how Japan recognizes and deals with its own problems and how the U.S. recognizes and deals with its own problems. Simultaneously, how the United States and Japan mutually recognize and deal with respective power is an extremely crucial point. Is the distance between the two close, or far? How is the power of each of the two positioned in the international society? These hard to define and extremely intriguing abstract and ambiguous problems are starting to show up between the United States and Japan. We do not have to go back to the Peloponesian War and Punic War. These anxieties between one country and another will lead to destabilization of the entire bilateral relationship. I would like to name this phenomenon a "Thucydides' like problem," since it is very difficult to properly define.

Awkwardly, in the United States, despite the need of such historical soul-searching for the U.S.-Japanese relationship, the Reagan administration's claim of a "Strong America," has inversely inspired the "National Decline" argument skeptical of the American future and international status. They have not yet straightened out various economic and social problems left behind by Reaganomics. On the other hand, in Japan, we have many opinions which see that international society is not based solely on the destabilized domestic political climate and introversion of the Japanese people in spite of Japan's enhanced international significance because it is the world's number two economic power. Under the circumstance, it seems that a kind of intellectual national isolation has continuously been in effect in the last 12 months. Considering these various factors, the effort between the United States and Japan to take time and organize our view on this type of problem shall be significantly limited. In this atmosphere, it seems to me that a pessimistic perspective is extremely practical, a perspective which admits that the politics of one nation cannot supersede the level of its people, and diplomacy can act only within this political limit.

On the U.S. side, putting aside the question of whether or not the national decline theories of P. Kennedy and D. (Carlia) are correct, these views have been presented, and the great works of P. Kennedy and A. Bloom have become best sellers although we do not ask if readers read them to the end of the last page. On the other hand, men such as S. Huntington, J. (Ney), and former Secretary of State Shultz have attempted to logically defy the national decline theories. This free-spirited climate is healthy, and coming out of it they have even begun to discuss the international role of Japan. However, on the Japanese side, domestic discussions about Japan's future image are not necessarily active. Hence, discussions on how to evaluate relations with the United States are, asymmetrically, not developing into anything beyond reacting to arguments on the U.S. side. Similarly, although many arguments on the U.S. side have originated from discussions on the future economic power image, they reveal three dimensional developments covering politics, military affairs, and even extending to ethics/sense of value/culture whereas arguments in Japan asymmetrically still develop around the single central piece, economy. Reflecting these differences, U.S. dissatisfaction with Japan has begun to shift to the areas of sense of values and institutions.

Tom Wolfe states that the eighties in America was an era of money but the nineties in America will be an era of heart. In that context, President Bush's "kinder and gentler America" slogan seems to demonstrate one trend, although it was ridiculed at first and there is certainly a question whether or not the current policy is really compatible with that objective. The eighties in Japan was also an era of money. If things stay as they are, the nineties in Japan will also be an era of money. Even in this respect, I can again see an asymmetric composition for the United States and Japan.

It is not strange to wonder how long this asymmetric and talk-less alliance can really last.

Can Japan Produce "Indy Jones?"

There is an American movie series titled "Indy Jones." No matter who watches it, it is fun. It is very popular all over the world. It gives universal enjoyment. The United states is capable of making this type of movie, and these movies, on the other hand, can't be made anywhere else but in the United States. In recollection, there was a time when we went to a movie theater only because American movies were shown, although in retrospect they were not anything special. The strong power and culture which was identified with the United States made the movies a symbol of attractive things. In other words, American institutions and culture/sense of values defined as "exceptional" by Tocqueville were made universal by the overwhelming power of the United States. However, at present, no one will probably go to a movie theater simply because American movies are played. People go to see a movie because it is fun. After all, America makes movies many of which are fun for everybody no matter who the viewer. The United States must keep on producing movies which are fun for everybody, and I am sure it will be done. That is correct even if a portion of the production capital is financed from Japan.

Having reflected on this, at no time did people go to a movie theater just because Japanese movies were shown, and that will also never happen in the future. I do not mean that Japan cannot make a movie which is fun for everyone. However, there is a a difference in that Japan has no intention of producing it. This is the delicate point. People who are considering such a project and people who have no will to do so will naturally have a different approach to life. Structural Impediment Initiative [SII] talks and various other talks will also be held between the United States and Japan this fall. They are important affairs, but how about if we sit back and talk about why "Indy Jones" is fun to watch?

A mutually discontented autumn will drag on into a mutually discontented winter. There is the thread of a tale, "meanwhile, the war has entered its 30th year," in Thucydides' "History." Autumn of the fourth year has already come and gone since the Plaza Accord.

* Competition in Auto Market Continues To Grow

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[Article by Hideyuki Sekine: "Severe Competition in Auto Market]

[21 Nov 89 p 10]

[Text] Battle for Survival in the United States

Having established world standards in quality and manufacturing technology, the Japanese automakers are now in the midst of developing a strategy for the nineties. A joint manufacturing facility set up by Isuzu and Fuji Heavy Industries (Subaru) will soon join the lineup of Japanese automakers already producing cars in North America. Isuzu and Fuji are also going ahead with plans to further penetrate the European market. This by no means indicates that survival is assured for all 11 of the Japanese auto producers. Showing distinct differences in development, production, and marketing methods, Japanese automakers are jockeying into position to cope with an increasingly competitive business environment. The nineties will be a decade of adjustment for the auto industry, a decade marked by a struggle for survival.

"Don't ask me, ask the market." This was the succinct response of Fuji President Toshihiro Tajima when asked to comment on Fuji's increased production capacity in North America. The question was put to Tajima at a gathering celebrating the kickoff of SIA (Subaru Isuzu Automotive) in Indiana.

While Isuzu and Fuji executives are preparing to start up their new facility, the American automobile market has been cooling down to a considerable degree. The beginning of this year saw the first signs of the downward trend in new car sales in the United States where the borderline between profitability and red ink is seen hovering somewhere around 10 million passenger vehicles annually. Leaders in the industry point out that these downward cycles seem to continue for two to three years as has been evidenced by past patterns of demand.

Toyota, a member of the first wave to set up manufacturing facilities in the United States, as well as Nissan and the three other Japanese automakers currently assembling cars there, have already established production schedules, the results being partially reflected in the 900,000 units already assembled in the United States during the first 10 months of this year. Extending until 1992, these production schedules forecast increased output for Honda at 590,000, Toyota at 500,000, and Nissan at 440,000 vehicles, totals which will put annual production over 2 million units for all Japanese automakers in the United States.

Yukiyasu Togo, president of Toyota America, stated that the current market conditions and the strong yen have unfortunately led to an incentive sales system which has narrowed the profit margin on each car sold. The incentive sales system is a marketing strategy in which new car sales are stimulated by rewarding the purchaser with a cash rebate.

As a result, the large and somewhat optimistic automakers say that the turnaround point, the time at which a new facility "turns around" from operating in the red to the black, will come at a later date than was previously expected. (Koichi) Amamiya, president of Honda's American operation, says that while their first production facility set up in 1978 reached profitability in only 18 months, their second facility is expected to take four to five years.

Furthermore, General Motors, the largest American automaker, is expected to announce a new four-cylinder

subcompact car called Saturn which is poised to counterattack the Japanese market which have been dominant up to now. In the United States and Europe, Toyota and Nissan are now attempting to penetrate the luxury performance sedan market where cars commonly have engine displacements of over 4,000cc. This market segment has been traditionally dominated by big name European companies, and a large volume penetration by the Japanese vehicles is not expected soon.

If the current trend toward flatter demand in the North American market continues, there is the definite possibility that Japanese automakers will face a significant drop in profits and a lengthened turnaround time in recouping investment in their American production facilities. The smaller automakers, those who are just now beginning to establish American production facilities in the wake of the larger firms, are facing a serious handicap. The efforts of the American market to resist the Japanese invasion may indicate a hidden danger to increasing investment in North America.

[22Nov 89 p 8]

[Text] **Pressure for More Investment**

"Domestic demand for cars is so strong that it scares us," was the candid statement of (Hiroshi) Oshima, vice president of Toyota, as he spoke to a group of media representatives gathered at the Tokyo Motor Show on 25 October.

The new car boom in Japan, now entering its fourth year, has prompted the Japanese automakers to make unprecedented investment into the development of new car models. Knowing that the good times can't go on indefinitely, many in the auto industry agree with the Mazda executive who said that his company is keeping a careful watch for signs of a downturn.

On the other hand, Toyota executives at the marketing frontline say that they can't keep up with demand. Domestic demand for 1989 has swelled to 8.5 million units (not counting minicompact cars), an increase of 1.5 million vehicles in three years. In response to these local conditions, the automakers are making plans to build new domestic facilities, partially out of the fear that their domestic capacity may have suffered due to their investment in manufacturing facilities in the United States and Europe.

For example, Toyota is constructing a new domestic factory slated to begin production in the fall of 1990 with a predicted annual capacity of 120,000 cars. Nissan will build a large-scale facility with an annual capacity of 240,000 units while Mazda plans a factory with a 160,000 vehicle yearly capacity.

While MITI (the Japanese Ministry of International Trade and Industry) has admonished the Japanese automakers that they may be investing too much in new facilities, especially in light of the potential for increased export and warnings from the United States and Europe to this effect, a meeting of the Japanese-American Business Council quickly responded that increased investment in the automotive industry would not be opposed. The automotive market in the United States shows signs of contracting while Japanese automakers increase production at their American facilities. The timing is awkward when one considers the big three (General Motors, Ford, and Chrysler) who are currently shutting down some of their factories. MITI's analysis of increased domestic investment by the auto industry included the observation that this expansion may take the appearance of a future export threat.

Shoichiro Toyoda, president of Toyota, spoke for the auto industry when he said that the new investment is not aimed at expanding production, but is an effort to achieve a higher degree of labor savings in order to cope with a shortage of workers and to augment the production of new models. Yutaka Kumei, head of Nissan, was somewhat irate as he pointed out that complaints from the United States in response to increased domestic investment by his company were, at the least, out of place. Other arguments are defending increased investment as a necessity in order to take advantage of the high yen and to reduce labor expenditures in the short run. Nissan, among the first to put voluntary restraints on exports through its international cooperation program, has expressed its view that Japanese industry must abandon its traditional business philosophy which is based on export.

"Automakers should be given a free hand in regard to investment," were the words of one Mazda executive. He is angered at the criticism which still emanates from the United States in spite of the fact that Mazda is maintaining a stance of voluntary export restriction in which the company is exporting considerably less than the 2.3 million cars originally slated as its self-imposed quota. Japanese automakers cannot afford to offend foreign markets, especially in light of the fact that Americans and Europeans still have vivid memories of the flood of Japanese cars exported to their markets during the 1970's. How can Japanese automakers answer the increased domestic demand while avoiding criticism from abroad? This is a problem which has no conventional solution.

[23 Nov 89 p 8]

[Text] **Shock Waves in the Nineties**

"We are currently studying the possibility of entering the European market by setting up a production facility in Europe as a joint venture with Ford of Europe."

This announcement was made by Norimasa Furuta, president of Mazda, at a press conference on 23 October signaling 10 years of jointly capitalized ventures between Mazda and the Ford Motor Company. Mazda's announcement, following in the wake of similar proclamations by Toyota, Nissan, and Honda, demonstrates that the competition between the Japanese automakers is now spreading beyond the United States and into

Europe. The decade of the 1990's will see annual production of Japanese automobiles at off-shore facilities rise to 2.4 million cars in North America and 500,000 cars in Europe.

One cannot afford to overlook the psychological motivation, seemingly brought on by a strong demand in the domestic market, which has prompted all of the Japanese automakers to increase investment in overseas production facilities in what is a very optimistic marketing strategy.

A Nissan executive says, "A good car is always going to sell," while a Mazda spokesman proclaims, "Consumers are more responsive than ever to quality automobiles." These two comments indicate how the Japanese auto makers are champing at the bit to increase their sales. Who could have predicted the current strong demand for automobiles, especially after the sharp rise in the yen after the Plaza Accord of September 1985? While Japanese cars offer plenty of appeal and are strong contenders in the market place, the current prosperity of the industry cannot be attributed to that alone. The current bull market for the Japanese automakers seems a shear stroke of fortune.

On the other hand, there is a real chance that this bubble of prosperity will suddenly burst in the not so distant future. Japanese production facilities in the United States are operating in a market which is showing an increasingly serious downturn in new car sales. Japanese makers say they will not resort to employee layoffs, a common practice employed by the American big three in response to slackening demand. Instead, they plan to study the feasibility of exporting surplus vehicles to markets outside of the United States in order to maintain their projected turnaround point (the time when a new facility begins profitable operation). This means that the Japanese automakers can "reverse import" their product by using the Japanese market to absorb over-production in the United States while they wait for the American market to recover.

This strategy fails, however, if there is a downturn of new car sales in Japan. While preparing for a European production startup, the auto companies run the risk of increasing their overall production capacity at a time when the American and Japanese markets may not be able to absorb all the cars being produced there. They cannot afford to overlook the possibility of a domestic Japanese market glutted with unsold inventory. It's a dangerous policy to rely on the domestic market to absorb excess overseas production.

In an increasingly competitive market, the American big three are sure to intensify their efforts against Japanese makers, while in Europe, one or two companies will be weeded out as a result of their inability to compete. In this scenario, some Japanese automakers will be forced to undergo drastic changes even before the end of this century. It's an unavoidable fact of life that the Japanese auto industry must somehow cope with the coming shock waves of the 1990's.

* LDP Structural Adjustment Policy Examined

902A0046A Tokyo NIHON KEIZAI SHIMBUN in Japanese 27 Nov 89 p 3—FOR OFFICIAL USE ONLY

[Interview with LDP economic adjustment special research committee chairman, Toshio Yamaguchi by editorial staff writer, Masahito Sano in column "Monday Economic Opinions"; date and place not given]

[Text] **Changing Course Toward "Stressing the Standard of Living"; To Aim at Establishment of a Tax System Which Promotes Imports**

The Japan-U.S. Structural Impediment Initiative Conference [SII], which began in September, ended the second round of talks having thrown into relief the size of the differences between the views of the two countries' governments. Within the content of what the U.S. side is seeking of Japan in these consultations there are many themes regarding which, not so much adjustment between Japan and America as adjustment within Japan, appears likely to have rough going. It is expected that in due course there will also be scenes in which it is the turn of "politics" to take the stage. The Liberal Democratic Party [LDP], too, established a "Special Research Committee on Economic Adjustment" within the party in mid October in connection with the SII, and it has already held more than 10 meetings. I asked the chairman of that research committee, Toshio Yamaguchi (lower house Diet member), how the LDP would handle things after this.

LDP Policy on Structural Adjustment

Fear of Jolting by America

[Sano] What is your assessment of the two rounds of structural consultations up to now?

[Yamaguchi] "Probably one of the positive results is that the problem points of the economic-structure side of Japan and America were, at any rate, put in order. But speaking in terms of the actual situation, I cannot deny the impression that the Japanese Government is giving too much priority to the assertion that 'The policy which we have pursued was not wrong.' What kind of trouble would it bring about if the abnormal reality of a trade surplus of $50 billion with the single country, America, having continued any number of years were to continue on far into the future as well? I sense a danger that something terrible will happen unless we transcend the level of argument, and the governments of both countries make greater efforts."

[Sano] What exactly do you mean by something terrible will happen?

[Yamaguchi] "There are those who depict a scenario in which America loses its temper and imposes an import surcharge on Japan, but I am rather optimistic concerning the invoking of that kind of concrete retaliatory measure. What I fear more than that, is that Japan will

be constantly jolted by America. If that jolting should trigger international financial uncertainty and an international crash in stock prices, there would be no way of undoing it."

Next Spring, There Will Be a Second Set of Proposals

[Sano] There are those who question how much the trade surplus with America would decrease by that, even if Japan were to go along with structural adjustment. Would you comment on that?

[Yamaguchi] "It is impossible for the surplus with America to disappear quickly. I expect the U.S. side also understands that fully. What is important, is that Japan impresses upon the U.S. side, and especially upon the U.S. Congress with its hard-line faction on Japan, the posture of making every effort to reduce the surplus. In order to do that, we will rearrange Japan's economic system, which has been formed with an export-orientation, to one oriented toward imports. We will change the direction of 'emphasis on production' to 'emphasis on standard of living.' Japan must show the posture and plan for such structural reform clearly by March 1990."

[Sano] What does the LDP plan to do for that purpose?

[Yamaguchi] "In early December we will submit our first proposals as the Special Research Committee on Economic Adjustment. Within them we intend to set forth establishment of a tax system which promotes imports. There will probably be those who object to using the tax system as a measure to promote imports, but I suspect we will be able to do it by a measure with a time limit as pump-priming to change the economic system to an orientation toward imports. We will also include the proposal that the government consider a setup in which such things as loans by financial institutions are also inclined more toward imports. We intend to propose that a policy-headquarters concerning the problem of domestic-foreign price differences also be established within government circles."

"We will submit the second set of proposals next year (after the general election). Here we expect to show the medium-to-long-term 'outlook for transformation into a major power in terms of standard of living.' America is making an issue of the height of Japan's rate of saving, but the high cost of homes is not the only cause for the saving-rate being high. The content of our proposals will probably be broad, including such things as amplification of the pension system to provide for old age, extension of the age for the mandatory-retirement system, and expansion of holidays and shortening of working hours."

Self-awareness Is Lacking in Financial Circles

[Sano] America is seeking expansion of public investment; will that be reflected in the compilation of the budget for the next fiscal year?

[Yamaguchi] "As a practical problem, it has become difficult to carry out current public projects because of the lingering effects of a shortage of labor, and the actual situation is that the budgets for some local autonomous bodies have not been used up, but we must do our best. We will put emphasis on sewer systems, housing, and urban redevelopment in particular."

[Sano] What about the land-tax system?

[Yamaguchi] "A basic land act will also be passed in the next extraordinary session of the Diet, and the policy line will be laid out, so we must go on steadily reviewing such things as the imposition of tax on farm land level with that of residential land within overall land policy. However, it will probably be spring of 1990 before we propose concrete measures."

[Sano] I suppose it would be difficult for either the government or the LDP to interfere with groupings of affiliated enterprises.

[Yamaguchi] "Grouping is something like a constitutional predisposition of Japanese people, so even if Japanese are told to change completely, it will not happen." However, enterprises that have expanded overseas are trying to provide for everything from finance to construction of factories to procurement of parts within the grouping in the same way they do in Japan. Such things are clearly going too far. Japanese financial circles must be more opened to the world. It happens because the financial circles are still lacking in the self-awareness that Japan is even becoming a leader in the world. Financial circles are submitting various requests to political circles, such as political reform, so our side, too, intends to tell financial circles to reconsider transactions within enterprise groupings."

[begin boxed item]

Main Points

(1) In early December the LDP will publish its first proposals in connection with economic structural adjustment. Within these, it will support establishment of a tax system which promotes imports.

(2) In the second set of proposals, which will be published in spring 1990, it will set forth a policy line of emphasizing the standard of living, with such things as extension of the age for the system of compulsary retirement and expansion of holidays.

(3) Public projects for the next fiscal year will emphasize sewer systems, urban redevelopment, and housing. The policy for dealing with the land-tax system will be proposed in the spring of 1990. [end boxed item]

* Business Enterprises Make Moves Toward East Europe

902A0038A Tokyo ASAHI SHIMBUN in Japanese 6 Nov 89 p 9—FOR OFFICIAL USE ONLY

[Article in "Economic Scope" column by ASAHI reporters, Toshihiko Shiohara and Kiyoshi Isshiki]

[Text] Interest in the East European countries, where the winds of liberalization have begun to blow, has suddenly mounted even in Japan. This is because even the slow-moving Japanese Government finally began to pay attention to East Europe, to the proposals of assistance which were launched by the Western countries in response to the democratization movements seen in Hungary, Poland, and East Germany. In any event, business enterprises place great hopes on the future markets, but the question of political stability is still unknown. Unless there is government support, such as the application of public loans or trade insurance, the situation is fraught with risks.

Japan and East Europe

The following account is a report on the present state and outlook of the economic relationship with the distant East European countries.

Poland Lacking Public Loans

The present economy of Poland, where democratization is advancing, is at its lowest ebb. Poland is saddled with huge liabilities and the various advanced countries have allowed the payment of its debts to be postponed. Even with the advancement of Japanese business enterprises, the investment environment is bad. For this reason, not a single joint enterprise with Japan has been formed up to now. The risk has been too great for any private enterprise to operate alone. However, little by little the winds of democratization are changing the once severe investment environment.

Among these changes, the most noteworthy is the move of Daihatsu Motor Co., Ltd. to furnish the technology of passenger car production to Poland's automobile manufacturer, FSO. The plan calls for the establishment of a factory, with an annual production of 120,000 vehicles, with technological introduction by Daihatsu and even for components to be supplied by Daihatsu. This project calls for the investment of Y110 billion for a seven-year period from the commencement of production.

Among the communist nations, Poland ranks next to the USSR in automobile production. Two plants produce 300,000 vehicles annually. But because these plants were introduced to the technology by the Fiat Co., the Italian automobile manufacturer, during the 1960's, the facilities are antiquated. For this reason, the aim is to rebuild the automobile production through technological upgrading from Daihatsu.

This project is appealing even to Daihatsu. Not only can it expect the exports of facilities and components as well as income from license fees, but the possibility exists of this plant becoming its European production base in the future.

But no conclusion has been reached as to what this project will be like in five years after the initiation of negotiations. Because the problem of Poland's foreign liabilities has not been settled, the biggest reason for this nebulous state is the fact that the Japanese Government did not recognize the application of trade insurance and the loans by the Export-Import Bank of Japan. According to Chairman Tomonaru Eguchi of Daihatsu Motor Co., Ltd.: "In the summer of last year, government agencies appeared to be in the mood of granting special credit, and good progress was made up to a point," but in the end the negotiations were broken off. The Polish representatives declared their intention of prolonging the contract with Fiat, and the talks faded away. However, on 29 September of this year, the FSO president telexed a message indicating a "desire to negotiate once more." Their negotiations with Fiat were unsuccessful.

Exercising extreme caution, Chairman Eguchi stated: "We would like to see the project realized, but cannot promote the negotiations until public loans are obtained. We hope the mood to assist East Europe will intensify and that political decisions will be made."

One more big matter remains in Poland. This is the Asahi Glass Co., Ltd.'s joint enterprise in plate glass production. According to (Janiszewski), deputy director of the Foreign Investments Agency, the signing of the agreement with an investment of $130 million is imminent. Poland's population is about 37 million people. This is the largest among the East European countries. Considerable domestic demand is anticipated, and with the materialization of the automobile factory construction plan, the demand for automobile-use glass is anticipated.

Negotiations for this project is being promoted on the premise of obtaining loans from the International Finance Corporation [IFC], which is a subsidiary agency of the World Bank. This project will not be realized without loans from the World Bank, but from the political consideration of supporting Poland's democratization, the approval of IFC loans is virtually certain.

If loans from the World Bank are sanctioned, the plans are to import textile raw materials and plastic manufacturing plants from Japan.

Joint Companies in Hungary Increasing

Among the East European countries, Hungary has the longest history in liberalization, both from the political and economic standpoints. Japanese business enterprises have been established here for some time. Among the major enterprises are the four joint companies which have already been established, namely, the bank with capitalization from the Taiyo Kobe Bank, Ltd. and The Long-Term Credit Bank of Japan, Ltd.; the factory to manufacture adiabatic foam sheets for construction use with investments by The Furukawa Electric Co., Ltd. and others; the factory to manufacture lysine for stock feed with investments by Kyowa Hakko Kogyo Co., Ltd. and others; and the adiabatic glass fiber factory with investments by Nitto Boseki Co., Ltd. and others.

The establishment of companies with 100 percent foreign capital and the remittance of foreign exchange of the profits were acknowledged from this year. They triggered

the establishment of joint companies, and this year alone the outlook is for the establishment of more than 300 joint companies with foreign capitalization.

Among them, the heavy investments include the joint enterprise of Suzuki Motor Co., Ltd. and Ikarus, the bus manufacturing company, and the technical tie-up of Nissan Diesel Motor Co., Ltd. furnishing its bus engine to the Raba railway and machinery factory. Besides these developments, 16 more joint enterprises with Japan are being negotiated, according to the head of the Japan section in the Trade Ministry.

The total amount of the investment by the Suzuki Motor Co., Ltd. in the joint enterprise for automobile production is about Y20 billion. This joint enterprise far exceeds the scope of enterprise that any joint company has entered into thus far. Its realization will mean the establishment of Hungary's first automobile plant. The result of having supporting industries established, such as component manufacturing plants, can be expected.

Although liberalization is said to be advancing, the stance of the Japanese investors is one of caution when it comes to large-scale investments. Even with Suzuki Motor Co., Ltd.'s joint enterprise, the advance investigation was conducted for more than four and a half years. On 6 November, President Osamu Suzuki and his entourage will leave Japan for Hungary, since several problems still remain before the negotiations are concluded. The biggest problem among them is the shortage of foreign exchange. Like the rest of the East European countries, Hungary is saddled with huge liabilities. Public loans are indeed necessary in a joint enterprise. The decision is dependent on whether or not foreign exchange can be obtained to pay the loans. The goal is for an annual production of 50,000 vehicles, but under the present situation, it is doubtful whether this number can be exported and sold in Western Europe.

Despite this fact, the Suzuki Motor Co., Ltd. is fascinated by the unknown East European market. Its company executives have declared: "Light vehicle manufacturers, like our firm, cannot easily enter the big markets in the United States or Western Europe. We stake our reputation on future possibilities in the same manner as the enterprises in India, Pakistan, and China."

East European Countries Exasperated at Slow-Moving Japanese

Compared with the rising interest shown by Japan, the eyes of the various East European countries scrutinizing Japan is surprisingly cold. Rakowski, first secretary of the Polish United Workers Party, declared frankly: "Based on our experiences thus far, we do not expect a great deal from Japan."

The embarrassing experience of having Daihatsu's joint project collapse, when in September 1988, just one step prior to signing the contract, the loan from the Japan Export-Import Bank was not approved, left the mark of bad faith toward the Japanese Government.

Kazsmer, chairman and president of Vidioton, stated: "Cooperation with Japan is difficult." For instance, even if one wants to visit Japan, the Japanese visa will not be issued. This is because if the acceptance permit from the Japanese business enterprise is not obtained, the visa will not be issued.

Actually in the back of this cold stare is a tremendous expectation from Japan. Kazsmer continues his displeasure by saying: "Japanese goods are magnificent. Although Japan wants to introduce high technology to Hungary, it won't even look at us, using Coordinating Committee on Export Controls [COCOM] restrictions as a reason." Although Polish and Hungarian business entrepreneurs want to import the outstanding Japanese manufacturing technologies, they are exasperated at the slow-moving Japanese.

Japanese Government Finally Moving

After the recent summit conference of the principal advanced nations (Arche Summit), which decided to aid Poland and Hungary, the slow-moving Japanese Government finally began to act. With the aim of engaging in emergency food assistance, environmental protection cooperation and management training assistance, the government will dispatch an environmental survey team to Poland, Hungary, Czechoslovakia, and East Germany for two weeks from 1 December.

Besides undertaking a flexible application of the medium and long-range trade insurance to Poland, which was prohibited in principle, the Japanese Government acknowledged the preferential tariff to Poland, and it expects to establish an export credit quota of Y5 billion from the Japan Export-Import Bank for Hungary.

In January of next year, Prime Minister Kaifu is scheduled to visit East Europe. Government agencies are reviewing what sort of "contributions" he can make to support East Europe, but already the U.S. Government has agreed to render assistance exceeding $300 million, including about $100 million of foodstuff, to Poland, and it expects to offer financial aid totaling more than $30 million to Hungary. Even the European Community (EC) has decided to render assistance of about $220 million, which includes management training, environmental cooperation, and $141 million worth of foodstuff. One cannot avoid the impression that Japan, compared with West Europe and the United States, is bending backwards in dealing with the situation. When it comes to dealing with East Europe, it appears that, unless the government takes a determined stance, the economic-related support at the private level is poor.

Weak Japanese Participation in East-West Cooperation

Among the advanced countries in the Western camp, West Germany has the largest volume of trade transactions conducted between East-West countries. Its transactions are conducted mostly with East Germany and through the 1970's and 1980's, it has conducted about 30 percent of the East-West trade transactions, which is an

incomparably high percentage. According to 1987 statistics, Japan is fifth in the order, following Italy, France, and Finland. It has garnered five or six percent of the entire East-West trade transactions.

Takashi Murakami, survey section chief of the Soviet and East European Economic Research Association, made this analysis: "Japanese business enterprises have positioned trading with East European countries as being of secondary importance and only to supplement trade by the Western countries. This is because the number of importable items are few and that the East European countries are burdened with excessive foreign liabilities."

According to the Polish Finance Ministry, Poland's foreign liabilities at the end of June was $37.3 billion. Yet, over 500 joint companies have already been established. The majority of the joint companies are formed with West Germany, Sweden, and other countries. There is none with Japan.

Even with the other East European countries, the situation with Japan's advancement, when compared with other Western countries, compares unfavorably.

The extent of Japanese companies forming joint companies in Bulgaria is limited to Fanuc Ltd., the machine tool manufacturing company, Mitsukoshi, Ltd. and other companies. Even considering East Germany, which does not recognize establishing joint companies with Western countries, as a separate deal, Japan's direct investments in Romania and Czechoslovakia are extremely few.

As for the already involved Japanese business enterprises, very few are top ranking companies, and the majority are medium and low-ranking companies.

Principal Economic Cooperation Enterprises Between Japan and East European Countries

Country	Name of Business Enterprise	Date Established	Composition	Kind of Enterprise
Hungary	Central European International Bank	1979	Joint Enterprise- Hungarian National Bank, 34 percent; six banks from Western countries, 66 percent (of this percentage, The Long-Term Credit Bank of Japan, Ltd. and The Taiyo Kobe Bank, Ltd. invested 22 percent)	Conduct bank operations pertaining to trade transactions.
Hungary	Polyfoam Plastic Processing	1984	Joint enterprise-Hungarian investments: (Pannon Purasu) [as received] and two banks, 85.7 percent; The Furukawa Electric Co., Ltd., 10.2 percent and C. Itoh & Co., 4.1 percent	Manufacture foam sheets for construction use.
Hungary	Agrofarm	1987	Joint enterprise-Hungarian investment: 65.5 percent; IFC, 14.5 percent; Kyowa Hakko Kogyo Co., Ltd., 13.4 percent and Toyo Menka Kaisha, Ltd., 6.6 percent	Manufacture lysine for stock feed.
Hungary	Salgotarjan Glass Wool	1987	Joint enterprise-Hungarian Glass Works and one other company, 57 percent; IFC, 17 percent; Nitto Boseki Co., Ltd., 16.5 percent; Paramount Glass Industry, 4 percent and Toyo Menka Kaisha, Ltd., 5.5 percent	Manufacture adiabatic glass fiber.
Hungary	Suzuki Motor Co., Ltd. and Ikarus and others	Under negotiation	Joint enterprise-Hungarian investments: Ikarus and others; Japanese investments: Suzuki Motor Co., Ltd. and C. Itoh & Co.	Manufacture automobiles.
Hungary	Nissan Diesel Motor Co., Ltd. and Raba	Under negotiation	Nissan Diesel Motor Co., Ltd. to furnish technology to Raba	Manufacture bus engines.
Poland	Asahi Glass Co., Ltd. and (Sandomietsu)	Under negotiation	Joint enterprise-Polish investment: (Sandomietsu); IFC; Japanese investments: Asahi Glass Co., Ltd. and Toyo Menka Kaisha, Ltd.	Manufacture plate glass.
Poland	Daihatsu Motor Co., Ltd. and FSO	Under negotiation	Daihatsu to furnish technological assistance to FSO	Manufacture automobiles.
Bulgaria	Fanuc, Ltd. and (Machinexu)	1981	Joint enterprise-Bulgarian investments: (Machinexu Poto) and two other companies, 50 percent; Japanese investment: Fanuc, Ltd., 50 percent	Machine tool maintenance and other tasks.

Principal Economic Cooperation Enterprises Between Japan and East European Countries (Continued)

Country	Name of Business Enterprise	Date Established	Composition	Kind of Enterprise
Bulgaria	(Sofia Mitsukoshi)	1981	Joint enterprise-Bulgarian investments: 10 companies, 51 percent; Japanese investments: Tokyo Maruichi Trading Co., 24.5 percent and Mitsukoshi, 24.5 percent	Principally export and import general merchandise.
Yugoslavia	(Pamu Kanu)	1984	Joint enterprise-Yugoslavian investment: PKV, 73.45 percent and Kanematsu-Gosho Ltd., 26.55 percent	Cotton spinning

Note: The above was compiled from data obtained from the USSR and East European Trade Association and other sources.

* Changes in Economy, Growth Expected

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Nov 89 pp 230-231 —FOR OFFICIAL USE ONLY

[Article by Nobuhiko Shima: "Looking At the Japanese Economy"]

[Text] **Curse You, "You Worn Out Economy"**

The other day when I ran into the personnel director of an automobile manufacturer, he returned my greeting with these words of woe. "At any rate the labor shortage is just too terrible. It is due to the fact that production is expanding to meet the improved conditions in domestic demand, but this summer at our factory in the Kanto region there were manpower shortages in excess of 300 workers. If things were the way they used to be, we would have gone around the Tohoku region recruiting short-term employees and somehow or other would have made up a shortfall of this size, but this time we could not find surplus workers to fill the gap. The situation is such that even when we ask the steel and shipbuilding industries to dispatch workers to us for assistance, we hear the reverse from them: 'we would like some ourselves.'"

We are looking at a favorable climate in domestic consumption where if we can make it we can sell it, but there continues to be too few essential workers, and that is the reason we are in distress. If you ask if the companies will hold back on production as the result of these shortages, they cannot. At just my own place, not only are we failing to make a profit, but they say even our market share will decline.

We are short handed and we cannot make it up, but if production continues to expand that burden will be borne by the employees alone. In this way, as the automaker mentioned before, they have been able to get through with overtime followed by more overtime, shortened summer vacations, work on holidays and by using workers who were not involved in production in the production area.

The situation is already bad in the construction and restaurant industries. Even with overtime and holiday work they cannot catch up and there have been bankruptcies where lack of workers drives a company into bankruptcy because construction that has been ordered does not move forward and because delivery dates are not met. In the restaurant business some stores have closed or have been forced to restrict their hours of business. Medium and small firms were already stretched beyond their capacity, but because of strict instructions from the parent companies to meet delivery dates for parts they "had to continue working over the summer and were virtually unable to take vacations."

With the continued expansion of demand, the macro figures for the Japanese economy are unchanged and excellent. The actual economic growth rate for April to June of this year was negative for the first time in a year due to the effects of the institution of the consumer tax, but the view is widely held that "this decline is temporary and that investment in plant and equipment and an increase in consumption will pull the economy like a tractor, and that the expansion of the economy is still going to continue."

The result is that counting from November 1986 when the expansion began, this economic expansion has now continued for 34 months, and has passed the third longest period of economic expansion in history, the "Jimmu expansion (31 months)." The view is that probably it will pass the second longest, the "Iwado boom (42 months)," and will actually make a run at the "Izanagi boom (57 months)." What name will be given to the current boom is a frequent topic of discussion and "New Izanagi boom," or the "Showa-Heisei boom," or just simply the "Heisei boom" are names that come up.

I have some doubts as to whether we should be so thrilled with this boom and whether we can take the view that "if the economic environment is alright, then everything else is fine." Investments in plant and equipment and consumption support the economic climate, and the former export leadership type economy that had brought confusion to the world economy is vanishing and has changed to a domestic consumption economic climate. This is an extremely good thing. But, looked at from the view of the labor force which supports this economy you see it from the point of view of the working person who is affected most by the manpower shortage. The burden is shifted to them, and manifests itself as a struggle for personnel, expansion of overtime, and losing of vacations. If one is discussing the economy then it is perhaps "a new Izanagi boom," but from the workers' point of view, it is really more like a spent economy.

The effects of the "utterly spent economy" do not appear only in lost vacations or extra hours at work. Because the movement of people and the movement of goods are intense, the roads are always crowded, the bullet trains and airplanes and metropolitan hotels are usually booked solid and are overflowing with people. If you try to use short vacation periods, or 3-day weekends which include public holidays to enjoy some leisure time, wherever you go there are "people, people, people," and we have a situation where even leisure activities are spent as if on a virtual conveyor belt.

In addition, with stress continually building in factory workers and among white collar employees, there have been recent dramatic increases in sudden deaths and deaths due to overwork. While the economic climate truly may be "continued fair weather without a cloud in the sky," when you look beneath the surface you see a "thoroughly spent economic climate" built upon unchanged Japanese work habits.

Working is a good thing, and if the work ethic were destroyed, history proves to us time and again that economic competitive ability would be completely lost. Resource-poor Japan has recovered in a mere 40 years and become a world economic power, and this is primarily due to its having a diligent labor force.

However, working too much has brought disorder to the world economy, and this has been pointed out for many years in such things as the "Maekawa Report" and other reports, and white papers and documents. But such things as the exercise of restraint in the fight over market shares, distribution of more of the profits to workers and stockholders, a shortening of the hours of labor, and all of Japan itself adopting a more relaxed work ethic, and getting in step with the rest of the world are guidelines for structural change. Somehow or other in the final analysis it is not an exaggeration to say company behavior these days is repeating the pattern of behavior of a high growth period, and since increases in plant and equipment in the various industrial sectors are already noticeable, should the domestic economy fall into a recession at once, the result will have to be the further expansion of exports.

At one time, as opposed to a philosophy of GNP supremacy in a period of high growth, there was a popular expression where people spoke ironically of a "completely worn out GNP." According to the forecast for the Japanese economy by the IMF which was released at the IMF general conference the other day, it indicated that there is the fear that the Japanese economy in 1990 will change again from a domestic consumption type to an export type. Wouldn't it be prudent to undertake some introspective self-criticism about the style of this "worn out boom" that is not going to be a new "Izanagi boom?"